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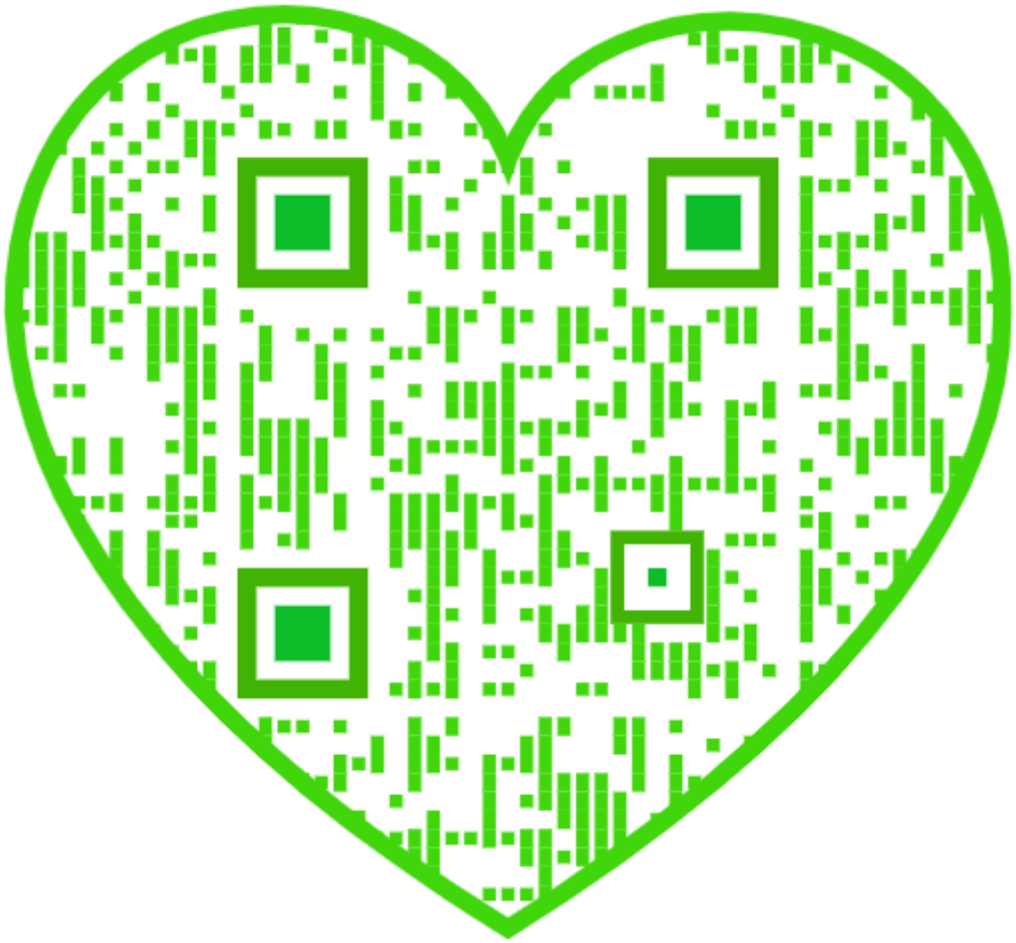

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ANKING AND CURRENCY

A LETTER

FROM

THE CHAIRMAN OF THE SENATE COMMITTEE
ON BANKING AND CURRENCY

TO

MR. JOSEPH T. TALBERT

Vice President of the National City Bank
of New York, New York City

PRESENTED BY MR. OWEN

JULY 28, 1913.—Ordered to be printed

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UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
July 26, 1913.

MR. JOSEPH T. TALBERT,
Vice President the National City Bank of New York,
New York City.

DEAR SIR: I am pleased to receive your comments on the proposed banking and currency bill, have given the matter careful consideration, and answer your objections at once.

I am glad that you agree to the importance of "mobilizing the reserves," providing "elastic currency," and establishing a "discount market for short-time self-liquidating commercial credits" growing out of trade transactions, and your approval of these principles which are found in the banking and currency bill introduced by me (S. 2639) is specially gratifying.

You insist that the reserves should be in one central bank. While the reserves are put in 12 reservoirs (of the 12 Federal reserve banks), instead of in one bank, the reservoirs are piped together by the provisions of the bill, under the control of the Federal reserve board, who can cause the reserve superabundant in one section to be transferred to another section needing temporary assistance by requiring one Federal reserve bank to loan to another, where the security offered by the borrowing bank is satisfactory to the directors of the lending bank. This provision makes the reserves in the 12 banks almost as mobile as if the reserves were all in one bank, as you advise.

You object to a loan of currency against bonds—Federal, State, or city. The power of the reserve banks to obtain currency from the United States against short-time self-liquidating commercial paper will furnish all of the accommodation the commerce of the country may be expected to require. The power to occasionally use investment securities as a basis for borrowing such currency, I think, would be bad if it should fix a regular custom, but its *occasional* use might be sometimes very serviceable.

You put a slur on the proposed members of the Federal reserve board as "mere politicians," as "political appointees," etc. The Federal reserve board should no more be stigmatized by the epithet "*political appointees*" than the Supreme Court of the United States, whose members are also "political appointees." It is in either case a governmental body of the highest dignity and character—not a partisan machine of self-serving knaves.

I remind you that the President of France appoints the governor, the subgovernor, and the manager of every one of the very numerous branches of the Bank of France, and yet nobody in France has ever charged that the Bank of France was managed as a political or partisan machine.

I remind you that the Emperor of Germany, on the nomination of the Bundesrath, appoints the Direktorium of nine members, the governing body, the supreme administrative control of the Imperial Bank of Germany, and yet nobody has ever charged that it is a political machine. In effect both of these great governmental institutions are moved solely by the welfare of the commercial and industrial interests of France and of Germany.

I remind you that the Bank of England has not on its directory a single banker, broker, or bill discounter, but it is controlled by public opinion as a great national agency and as a safeguard for the commercial and industrial interests of the British Empire.

Your plea that the bankers should control the Federal reserve board and the proposed reserve system would violate the experience of England, France, and Germany and is contrary to common sense, for the obvious reason that these reserve banks are not created to enable you to make more money but are established to safeguard the commerce and industry (including the banks) of the people of the United States and to put an end to the periodic sinister expansion and contraction of credits leading to the so-called "bull markets" and "bear markets," in which banks like your own have been used as a means of promoting private interests at the public expense.

The bankers have no more right to ask to take charge of the governing functions of the United States proposed to be exercised by the Federal reserve board than the railroads would have a right to demand control of the Interstate Commerce Commission, which is intended to regulate them in the interest of public justice. The bankers have no more right to ask control of the Federal reserve board than the beef packers of Chicago to demand the right to administer the pure-food act, which is intended to regulate beef packing in the public interest.

I confess that the bankers understand the banking business, that the railroad men understand the railroad business, that the packers understand the beef business, but their point of view is money making out of their business. Their point of view is not the point of view of the public interest, except so far as an individual may be moved against his own interest by patriotic considerations. And patriotic considerations have not, in the past, been found sufficient to safeguard the public against the local, sectional, or selfish interests of such private persons moved by their own natural desire to promote their private fortunes at public expense.

You object that membership of national banks is made "compulsory" in the proposed system, and at the same time the suggestion has come from your immediate environment that the larger national banks would refuse to participate in the proposed Federal reserve system which you generously and justly call "a great constructive undertaking."

I am myself quite willing to make bank membership permissive and to open the stock books of the proposed reserve banks to the general public, who will be content, as the citizens in England, France, and Germany who own the stock of the Bank of England, the Bank of France, and the Bank of Germany are content, with a low rate of interest upon such stock.

Your suggestion that these notes are intended to be the obligations of the Federal reserve banks is a serious error. They are obligations

of the United States Government and are intended to be such, and the language should be made entirely unequivocal upon this point. The words describing this currency and saying the notes should on their face "purport" to be the obligations of the United States should be changed so as to remove the equivocation which you seem to think that word implies.

You ask me the question, "Shall the control and domination of the banking business of the United States, including note issues, bank credits, and the cash reserves of the United States, be surrendered unconditionally into the hands of a board of seven members appointed by the President?"

Surrendered by whom, my dear sir? By you and a half dozen others who have gotten possession of this dangerous power?

I ask you, in return, "Shall the control and domination of the banking business of the United States, including note issues, bank credits, and the cash reserves of the banks, be retained unconditionally in the hands of certain men like yourself for mere money-making purposes without responsibility to the people of the United States, and shall men like yourself exercise an invisible government over the commerce and industry of the United States and without control?" The issue is well drawn by you. Either a half dozen private persons in the United States will continue the control and domination of the shall men like yourself exercise an invisible government over the commerce and industry of the United States, or the Government of the United States must assume so much control as is essential to safeguarding the commerce and industry of the Nation, in the interest of all the people, including the banks.

You ask me, "Is there wisdom or safety in placing such power in the hands of a board of seven individuals having no personal interest in the banks?"

I ask you, in return, "Is there wisdom or safety in leaving such power in the hands of a like number of bankers in Chicago and New York, having a personal interest but who have no personal responsibility to the people of the United States and who have demonstrated their inability (if not their unwillingness) to protect the stability of the commerce of the United States?"

The very fact the Federal reserve board has no personal interest, but acts from a governmental and altruistic standpoint in the interest of *all* of our people, in the interest of every branch of commerce and industry of the United States, the banks especially included, is the best answer to your objection. It is true there are quite a few thousands of bankers, but there are 90,000,000 people under our flag who are not bankers.

Would you prefer that this stock of the Federal reserve banks should be contributed by the general public and give the banks no voice whatever in the Federal reserve banks? If so, I should be glad to have you say so plainly and give that as your advice. The stock would be oversubscribed ten times and would come straight out of the bank deposits of the country.

Your suggestion that because 1 of the 7,000 member banks does not control the Federal reserve bank it would not have any interest in contributing to the stock is singularly unreasonable. What a member bank gets is the immediate right to rediscount its liquid bills up to two-thirds of the reserve deposited with the reserve bank;

and, in addition, other accommodations by way of rediscounts in case of need, gets currency always to supply its customers, and, in addition, a financial roof over its head and a financial foundation under its feet that will prevent the periodic destruction of banks by the currency and credit panics which have swept this country under the unhappy management of the very banks who now protest against "surrendering," as you say, their control of the banking business.

Under the proposed Federal reserve system, a member bank could, by the consent of the Federal reserve board, obtain all the currency necessary to pay its depositors in full in case of a run. What more should a member bank want?

At present, my dear sir, such a bank in times of panic can not get its own deposits from you, much less the discounting of good assets.

I trust you will not deem it discourteous if I suggest that the public appreciates your point of view better than you appreciate the public's point of view.

You urge that a "politically controlled bank" can not be kept permanently "out of politics." My answer is that the proposed bank is a *governmentally* controlled bank, but that if the banks themselves were permitted to control the Federal reserve board, the National City Bank would head the list in its political activities to get control of this Federal reserve board, and would not be moved altogether by altruistic and unselfish purposes. We should then indeed have financial politics in control of the board with selfish interests behind it. We must make our choice between protecting the people by the Government and protecting the people by the political bankers and, being obliged to make that choice led by the experience of the past, I am in favor of protecting the people through their own chosen representatives.

You would greatly misunderstand my letter if you fancied for one moment that I have any other than a friendly disposition to the big banks of the country. I am in favor of serving them well by giving them a system which would safeguard them against harm, against panic, against each other, for I am told at times they eat each other up.

You protest "against the unwise proposal to concentrate the regulation and control of credits * * * in the hands of a few politicians," and you evidently favor the policy of not "surrendering," but retaining such regulation and control now in the hands of a few powerful bankers. This is a very ingenuous admission on your part of a fact which is thoroughly well understood by the country, but a fact obviously not well understood by you. The people of the United States are not going to permit, any longer, a few men not responsible to the people of the United States, to continue "to concentrate the regulation and control of credits in their own hands."

I am so far in accord with you with regard to the importance of the Federal reserve board being above suspicion of partisanship that I shall advocate an amendment making any use of the powers of the Federal reserve board or of the Federal reserve banks for partisan or self-serving purposes a high misdemeanor. Yet I remind you that neither the directors of the Bank of England, controlled, as they have been, by public sentiment (which does not permit a banker, a broker, or a bill discounter to be a member of the board), nor the

directors of the Reichsbank of Germany, appointed by the Government, nor the managers of the Bank of France, appointed by the Government, conduct themselves at any time so as to be subjected to the charge of partisan or indecent conduct. Do you have less confidence in the Secretary of the Treasury, the Secretary of Agriculture, the Comptroller of the Currency, and the other great and honorable Americans who would be called to this distinguished service as members of the Federal reserve board, than you have in the managers of the French, German, and English banks referred to?

The people of the United States will prefer to trust their own President and officials rather than turn the functions of governing the reserve system over to the genial and attractive gentlemen who have charge of a few big banks of the country.

Yours, very respectfully,

ROBT. L. OWEN, *Chairman.*